

# Memorandum

To: Peter McNamee, Executive Director  
Date: March 27, 2003  
From: Charles Rufo, Manager  
Peter DeMauro, General Counsel  
Analyst: K. Udarbe  
Subject: One-Step Agreement for **Keiser Corporation <100 (SET HUA)**  
(www.keiser.com)

## **CONTRACTOR:**

- Training Project Profile: Retraining: companies with out-of-state competition  
SET Workers in High Unemployment Areas
- Legislative Priorities: Promotion of California's Manufacturing Workforce  
Moving to a High Performance Workplace  
Stimulating Exports and Imports
- Type of Industry: Manufacturing
- Repeat Contractor: No
- Contractor's Full Time Employees:
  - Company Wide: 73
  - In California: 70
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union  
representing workers to be Trained: N/A

## **CONTRACT:**

- Program Costs: \$72,800
- Substantial Contribution: \$0
- Total ETP Funding: \$72,800
- In-Kind Contribution: \$38,182
- Reimbursement Method: Fixed-Fee

- County(ies) Served: Fresno
- Duration of Agreement: 24 Months

**SUBCONTRACTORS:**

None

**THIRD PARTY SERVICES:**

None

**NARRATIVE:**

This application is a referral from the California Manufacturers and Technology Association (CMTA).

In 1977, two brothers, David and Randy Keiser incorporated and formed the Keiser Corporation (Keiser) in Fresno, California to develop, manufacture and sell air-powered, otherwise known as pneumatic, exercise equipment and children's play area equipment.

The Company is eligible for standard retraining under the Out-of-State Competition Provisions outlined under Title 22, California Code of Regulations, Section 4416(b) for industrially classified manufacturers retraining current employees.

The Company reports that it designs and produces over 30 types of resistance exercise equipment and stationary bicycles. This equipment was originally designed to assist the baby-boomer generation to stay healthy as they move into their retirement years. However, many health clubs now utilize the equipment as an alternative to the traditional exercise equipment that uses weighted plates for resistance. Keiser's line of children's play equipment with colorful walls and freestanding panels are designed to stimulate a child's mind by integrating graphics, wire and bead tables. This play area equipment integrates activities that stimulate the development of gross motor skills, reasoning skills, and social skills.

Some of the Company's major customers are LA Fitness, Carnival Cruise Lines, YMCA, Woo Young and the United States Armed Forces. Company representatives report that total sales in 2002 exceeded \$11,500,000, of which 70 percent were international shipments to other countries, including Italy, Canada and Spain.

The Company wants to strengthen its competitive position and still maintain its manufacturing base in Fresno. The Company competes with the Nautilus Group based in Massachusetts, Wynn in Canada, Reebok International in Massachusetts and Air Machines in Italy, among others. Company representatives state that these competitors carry major brands of exercise machines that are mostly manufactured at a lower cost of production in Taiwan and other Asian countries.

In its effort to reduce costs of production, the Company states that it has made a strategic decision to implement a Continuous Improvement program to shift plant operations to a high performance workplace that will progressively realize reduced wastage, improve operating efficiencies, trim costs of production and increase overall plant productivity.

**NARRATIVE** (continued):

**Training Plan**

In recognizing its relatively high cost of production, the Company reports that it has started an ongoing review and evaluation of its production and administrative processes. In this regard, it has also built a \$50,000 classroom for employee meetings and training.

The proposed ETP-funded training is to train 52 frontline production workers. The training will give emphasis to the concepts and applications of Continuous Improvement as the Company makes a determined effort to move to a high performance workplace.

**Continuous Improvement:** The training will be customized for the production unit teams. It will include the Kan-Ban 5S training, which integrates problem-solving and decision-making skills into everyday work processes. Leadership Skills training is planned to strengthen teamwork and improve communication within units and between departments. Employees will learn to evaluate work processes through value stream mapping, quality control skills and cellular lean Manufacturing Skills. The expected outcome would be a skilled production workforce with the ability to address shop floor inefficiencies; analyze issues and production bottlenecks; present practical, feasible solutions; and, achieve the timely delivery of safe, customer-specific products.

**Supplemental Nature of Training**

The Company reports that it does not have a formal, structured training program for its employees. Informal training, to date, involves new employee administrative orientations and on-the-job skills training through mentoring provided by longer-term, experienced employees. The Company hires production personnel with little or no prior skills experience and training. With one-on-one assistance from other production personnel, these new employees are introduced to shop floor procedures and terminology and start by handling simple tasks, learning to use basic hand tools and move on to more complex machinery over time.

All employees are also provided shop floor safety training required by the Occupational Safety and Health Administration. Unscheduled discussions are carried out to address production backlogs and related concerns. Among the frontline production workers, there is minimal understanding of the integrated production process, methods evaluation, teamwork and the function of each employee in the overall performance of the Company.

The proposed ETP training will change these training approaches through a structured, classroom training program focused on Continuous Improvement concepts.

**In-Kind Contribution**

Keiser Corporation will contribute to this training plan as follows:

Wages paid to employees during training	\$ 35,382
Training Materials @ \$40 per Trainee x 52 trainees	<u>\$ 2,800</u>
Total In-Kind Contribution:	<u>\$ 38,182</u>

**COMMENTS:**

**Senior Staff Policy**

All of the participants meet the Panel definition of frontline workers under Title 22, California Code of Regulations, Section 4400(ee). Keiser representatives certify that no senior policy executives who create company policy will be enrolled in the proposed ETP-funded training.

**Turnover Rate**

In accordance with Title 22, California Code of Regulations, Section 4417 (a), which states:

“The Panel shall fund training for employment that is stable. The employer’s turnover rate shall not exceed 20 percent annually for the company facility where training is being requested. The Panel may accept a higher turnover rate if the employer provides evidence that the proposed training will significantly decrease the turnover rate, or the employer has experienced a singular reduction in force, or other occurrence which adversely affected the turnover rate in the last calendar year, or if industry data supports a higher turnover rate.”

In accordance with the above regulation, Keiser is requesting a waiver of the maximum 20 percent turnover rate requirement. Keiser’s employee turnover rate for 2002 was 21.0 percent. The Company turnover rate for each of the previous two years was below 20 percent. The Company’s representative states that the 2002 turnover rate was an anomaly for two main reasons: 1.) several employees had been waiting for job openings with the Fresno County government and when the positions opened up, these employees left to take the jobs; and, 2.) three employees had to be terminated due to repeated attendance difficulties. Keiser had not had this attrition in previous years. Because of its small base of total employees, the turnover rate increased significantly for Keiser. The Company is now screening and hiring new employees to ensure that they are not just joining the Company for an interim job, but that new employees are committed to learn and grow with the company on a long-term basis.

In this regard, Keiser requests a waiver to the ETP turnover limit of 20 percent and the Company is prepared to forego the final 25 percent progress payment if it is unable to reduce the turnover rate to 20 percent or less for the last 12 months of the Agreement. In addition, Keiser has agreed to a 120-day retention period instead of the customary 90-day retention due to its high turnover and wage waiver request.

**Training in High Unemployment Areas of California/Wage Waiver Request**

Unemployment Insurance Code, Section 10201.5, states in part:

“...for workers in regions suffering from high unemployment and low job creation, including the working poor, the Panel may waive the minimum wage requirements provided that the post-retention wage of each trainee who has completed training and the required training period exceeds his or her wage before and during training. This determination shall be made on a case-by-case basis to ensure that post-training improvement in earnings are sufficient to warrant the investment of public funds.”

This section of the Unemployment Insurance Code gives the authority to waive the ETP minimum wage requirements for frontline workers in regions of the state where the unemployment rate is significantly higher than the state average.

**COMMENTS (continued):**

This proposal affects frontline, full-time production workers in Fresno County, a California county with a significantly high unemployment rate, exceeding the state average by 25 percent or more. Based on Employment Development Department (EDD) figures for January 2003, the specific unemployment rate in Fresno County is 17.0 percent, while the statewide rate is 7.0 percent.

For 25 of the 52 trainees, Keiser is requesting a waiver of the ETP minimum wage requirement of \$10.98 to \$8.85 per hour, inclusive of health benefits of at least \$1.35 per hour. The ETP minimum wage will be above the SET Working Poor minimum wage for Fresno County, which is \$8.24 per hour for 2003.

To support the wage waiver request, Keiser confirm that these employees have little or no production skills experience. These employees are in entry-level production positions and are given simple, repetitive low-skilled tasks. The pay scales of these employees are low because of the limited level of skills required and the limited skills, training and experience they bring into the job. Within the Company, they are provided one-on-one instruction and mentoring from other employees as they learn to handle basic tools and gradually move on to more complex tasks and machinery. With the ETP-funded training, these workers will receive Continuous Improvement training that will make them more valued employees because they will be able to perform and grow in their jobs with an understanding of how each of them fits into the whole process and also have the ability to analyze and recommend solutions for improving the process.

At the end of the 120-day retention period, the Company is committed to increase the wages of these employees by at least 7 percent from a base hourly wage of \$7.01 to \$7.50 per hour, with an hourly wage of \$8.85 inclusive of health benefits.

**PROPOSED ACTION:**

Staff recommends that the Panel approve this One-Step Agreement and the applicant's wage waiver and turnover rate waiver requests if funding is available and the project meets Panel Priorities. This recommendation is based on the commitments made by the contractor to retain all trainees for at least 120 days after training; reduce the turnover rate to 20 percent or below; and to increase the employee minimum wage per hour for Job Number 2 by at least 7 percent at the end of the retention period. ETP funding will promote Keiser's move to a high performance workplace and provide support to a California small business that is faced with out-of-state competition.

**TRAINING PLAN:**

<b>Grp/Trainee Type</b>	<b>Types of Training</b>	<b>No. Retain</b>	<b>No. Class/Lab Videocnf. Hours</b>	<b>No. CBT Hrs</b>	<b>No. SOST Hrs.</b>	<b>Cost per Trainee</b>	<b>Hourly Wage after 120 days</b>
Job Number 1 Retrainees<100	Continuous Improvement	27	70	0	0	\$1,400	*\$10.98 - \$20.00
Job Number 2 Retrainees<100 (SET HUA)	Continuous Improvement	25	70	0	0	\$1,400	*\$8.85 - \$9.11
						<b><u>Range of Hourly Wages</u></b> \$8.85-\$20.00	
						<b><u>Prevalent Hourly Wage</u></b> \$11.00	
						<b><u>Average Cost per Trainee</u></b> \$1,400	
<b><u>Health Benefit used to meet ETP minimum wage:</u></b> *Medical, dental, and vision health benefits of at least \$1.35 per hour may be used to meet the 2003 ETP Minimum Wage of \$10.98 per hour in Job Number 1 and \$8.85 per hour in Job Number 2 for Fresno County.					<b><u>Turnover Rate</u></b> 21.0%	<b><u>% of Mgrs &amp; Supervisors to be trained:</u></b> 0%	

Keiser Corporation

Curriculum

Class/Lab  
70 Hours

Trainees will receive training in any of the following topics:

Continuous Improvement Skills

Quality Concepts

Process Flow Improvement

Kan-Ban

Value Stream Mapping

5S

Problem Solving

Front Line Decision Making

Kaizen

Cellular Manufacturing

Lean Manufacturing

Front Line Leadership Skills

Communication Skills

Team Building